

FDIC State Profile

Fall 2005

Arkansas

State employment sets a record, despite renewed weakness in manufacturing.

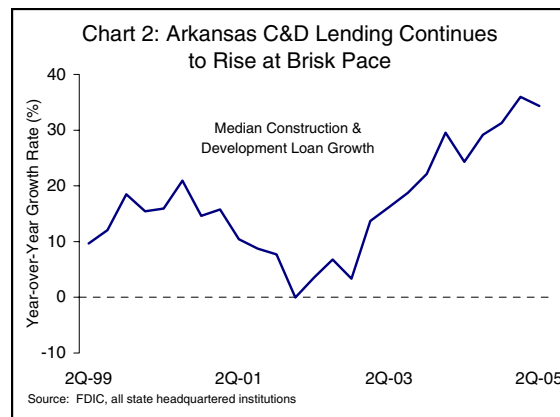
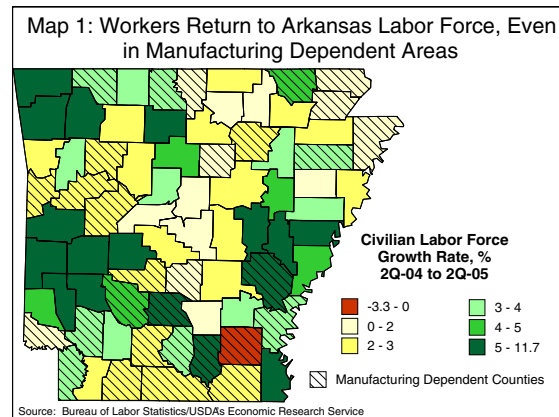
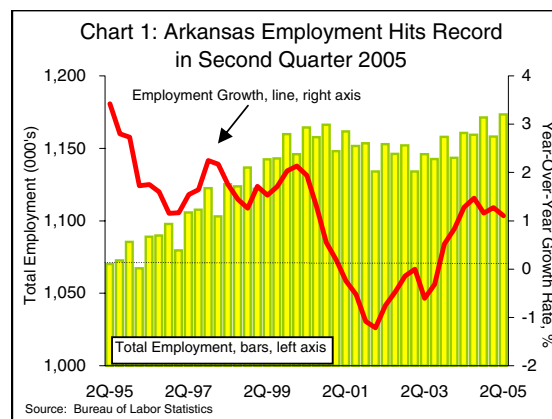
- Driven by strong service sector growth, total state employment reached a new all-time high in second quarter 2005, surpassing the previous mark set in fourth quarter 2004 (see Chart 1).
- The state reported the fifth consecutive quarter of 1 percent or better year-over-year employment growth through second quarter 2005.
- The manufacturing sector, which in 2004 posted a marginal total employment gain, has reversed course and shed approximately 1,600 jobs through the first half of 2005.

Emboldened by the expanding economy, a number of previously discouraged workers have reentered the labor force.

- Arkansas posted year-over-year civilian labor force growth of 3.25 percent in second quarter 2005, the fourth highest rate in the nation during that period.
- Even in manufacturing-dependent counties, average labor force growth has been solid (2.8 percent), albeit at a slower pace than in non-manufacturing dependent counties (3.9 percent). Drew County was the sole exception with a reported civilian labor force loss of 3.3 percent (see Map 1).

Financial institutions are benefiting from the revived economy in the form of loan growth.

- Loan growth remains robust at state-headquartered institutions. Total loans grew 12 percent in second quarter 2005 with continuing growth in the construction & development (C&D) segment, thanks to solid job growth and in-migration. Median C&D lending grew 34 percent on a year-over-year basis in second quarter 2005 (see Chart 2).



State Profile

Community institutions are being pinched by rising interest rates.

- State-headquartered community institutions¹ reported a moderate amount of net interest margin (NIM) compression in second quarter 2005 concurrent with recent interest rate increases (see Chart 3). NIM compression is evidenced by a 33-basis-point increase in the median cost of funding over the past year, nearly double the correspondent rise in the median yield on earning assets. The median return on assets (ROA) at these institutions also declined slightly to 1.07 percent, but compares favorably to the national median of 1.06 percent because of lower overhead expense and higher non-interest income.
- Unlike community institutions, the state's six large² institutions have generally maintained their NIMs in line with the previous year, while enjoying a slight increase in profitability. Five of the six institutions reported an increase in ROA in second quarter 2005.

Institutions are increasingly turning to alternative sources to fund asset growth.

- Year-over-year core deposit³ growth fell to 4.3 percent, the slowest rate since the 2001 recession.
- As of June 30, 2005, 73 percent of all state-headquartered institutions reported the use of FHLB borrowings, up from 60 percent two years earlier. Additionally, the use of brokered deposits continues to increase with a total of slightly more than \$1 billion, an all-time record, as of June 30, 2005.

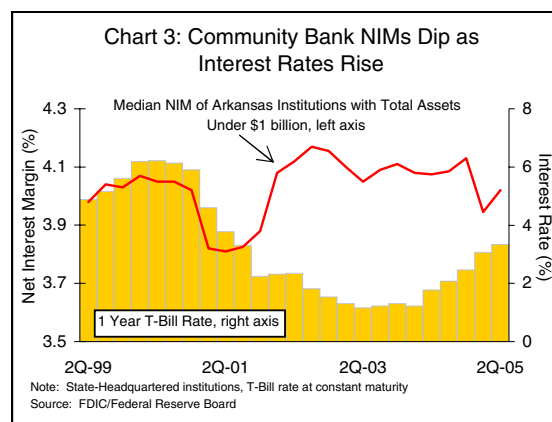
Two top performing job sectors likely to benefit from government surplus.

- Solid economic growth combined with an active housing market and increased tourism boosted tax collections and helped Arkansas attain a budget surplus of \$124 million in fiscal year 2005.⁴
- Because of ongoing compliance with the **Lake View** school funding ruling and rising Medicaid costs, the education & health services and government sectors are likely to benefit the most from the budget surplus. According to Governor Mike Huckabee, "We must cover educational and Medicaid obligations first (with this surplus)."⁵ While the education & health services and

government sectors combined make up 30 percent of total state employment, one out of every two new jobs in the state over the past year has come from these sectors.

Hurricanes could have wide-ranging effects on the state economy.

- An estimated 50,000 to 100,000 people arrived in Arkansas after a large area of coastal Louisiana and Mississippi was severely damaged on August 29th by Hurricane Katrina, and additional evacuees reportedly entered the state as Hurricane Rita neared. The immediate impact of this migration may temporarily strain the government and private aid services sectors.
- In addition, rising energy prices as a result of the hurricanes could negatively affect consumer and business finances. Of particular concern locally are the trucking and agricultural sectors, which rely heavily on energy and energy-related products.⁶
- The retail and lodging sectors will most likely benefit from the influx of evacuees. However, the long-term effects on the economy and banking in the state will depend to a considerable extent on the number of evacuees who decide to establish permanent residence.



¹Defined as institutions holding less than \$1 billion in total assets, as of June 30, 2005.

²Defined as institutions holding more than \$1 billion in total assets, as of June 30, 2005.

³Includes all demand deposits, money market accounts, other savings accounts, and CD's under \$100,000.

⁴Michael Wickline, "Surplus Likely to Hit \$325M in '07," *Arkansas Democrat Gazette*, August 10, 2005.

⁵Wesley Brown, "State Gets Unexpected Windfall," *Fort Smith Times Record*, June 13, 2005.

⁶On September 7, 2005, the American Trucking Association estimated total fuel expenditures by the trucking industry would rise 37 percent in 2005 from a year ago.

Arkansas at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.1%	1.3%	1.3%	1.2%	-0.1%
Manufacturing (17%)	-0.8%	-0.1%	-0.7%	-0.9%	-3.7%
Other (non-manufacturing) Goods-Producing (5%)	2.2%	3.7%	2.2%	1.8%	-5.4%
Private Service-Producing (60%)	1.4%	1.5%	1.9%	1.8%	1.0%
Government (17%)	1.7%	1.2%	1.0%	1.1%	1.6%
Unemployment Rate (% of labor force)	4.9	5.4	5.8	5.7	5.9

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	5.9%	6.2%	6.7%	7.2%	4.4%
Single-Family Home Permits	12.2%	16.5%	2.0%	4.8%	15.9%
Multifamily Building Permits	-67.4%	64.4%	18.5%	18.7%	16.2%
Existing Home Sales	15.8%	15.3%	6.2%	13.2%	3.1%
Home Price Index	8.0%	7.2%	5.7%	5.9%	4.2%
Bankruptcy Filings per 1000 people (quarterly annualized level)	9.72	9.55	8.46	8.80	9.27

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	163	167	168	168	170
Total Assets (in millions)	42,279	41,373	39,093	40,686	38,129
New Institutions (# < 3 years)	1	1	0	0	0
Subchapter S Institutions	33	33	32	32	31

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.13	2.25	2.38	2.34	2.83
ALLL/Total Loans (median %)	1.46	1.49	1.47	1.50	1.47
ALLL/Noncurrent Loans (median multiple)	1.44	1.49	1.39	1.50	1.30
Net Loan Losses / Total Loans (median %)	0.10	0.05	0.14	0.20	0.29

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.92	9.70	9.91	9.80	9.78
Return on Assets (median %)	1.10	1.05	1.15	1.09	1.09
Pretax Return on Assets (median %)	1.49	1.45	1.65	1.52	1.50
Net Interest Margin (median %)	4.08	3.98	4.09	4.14	4.13
Yield on Earning Assets (median %)	5.97	5.70	5.66	5.66	5.99
Cost of Funding Earning Assets (median %)	1.98	1.75	1.50	1.57	1.84
Provisions to Avg. Assets (median %)	0.12	0.10	0.15	0.16	0.22
Noninterest Income to Avg. Assets (median %)	0.78	0.72	0.75	0.72	0.75
Overhead to Avg. Assets (median %)	2.82	2.76	2.77	2.81	2.82

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	62.2	61.0	60.3	60.6	59.1
Noncore Funding to Assets (median %)	27.6	25.3	25.6	25.0	23.9
Long-term Assets to Assets (median %, call filers)	12.3	13.1	14.9	12.3	14.9
Brokered Deposits (number of institutions)	49	43	38	45	40
Brokered Deposits to Assets (median % for those above)	4.7	5.3	5.1	5.2	3.9

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	76.6	79.2	84.3	79.2	81.0
Commercial Real Estate	174.7	177.8	155.2	170.6	151.4
<i>Construction & Development</i>	46.9	44.9	30.5	40.5	27.3
<i>Multifamily Residential Real Estate</i>	4.4	4.8	3.8	4.0	3.9
<i>Nonresidential Real Estate</i>	120.3	122.4	116.1	117.1	113.5
Residential Real Estate	146.9	152.1	151.3	154.0	156.7
Consumer	52.7	54.6	57.2	55.4	62.2
Agriculture	47.8	44.4	43.9	41.9	44.3

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Memphis, TN-MS-AR	54	25,949	< \$250 million	121 (74.2%)
Little Rock-North Little Rock, AR	35	9,164	\$250 million to \$1 billion	36 (22.1%)
Fayetteville-Springdale-Rogers, AR-MO	25	5,504	\$1 billion to \$10 billion	6 (3.7%)
Fort Smith, AR-OK	22	3,400	> \$10 billion	0 (0%)
Jonesboro, AR	16	1,847		